

**Tennessee Board of Regents
Shelby State Community College**

**For the Year Ended
June 30, 2000**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

August 2, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and

Dr. Nathan Essex, President
Southwest Tennessee Community College
737 Union Avenue
Memphis, Tennessee 38174

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Shelby State Community College, for the year ended June 30, 2000. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The college's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/snb
01/030

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Shelby State Community College
For the Year Ended June 30, 2000

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

Financial Reports Were Not Accurately Prepared *

The college's unaudited financial report for the year ended June 30, 2000, which was submitted to the Tennessee Board of Regents (TBR), was not accurately prepared. The report contained information that did not agree with the general ledger or supporting documentation, amounts on supporting schedules that did not always agree with amounts reported in the financial statements or on other supporting schedules, and inaccurate note disclosures. College personnel did not follow the instructions or perform comparisons between related schedules. Several of the noted errors could have been detected and corrected if the TBR

instructions had been properly followed and if comparisons had been made between related supporting schedules and the financial statements (page 6).

Internal Controls Related to Restricted Fund Accounts Were Weak

Internal controls over restricted fund accounts were weak. Because of weak internal controls, restricted activity was not properly recorded, activity related to the U.S. Department of Education programs was not properly reported to or reconciled with the Grants Administration and Payment System (GAPS), and adequate collection efforts were not made to collect prior-year receivable balances (page 8).

* This finding is repeated from the prior audit.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Board of Regents
Shelby State Community College
For the Year Ended June 30, 2000

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**Tennessee Board of Regents
Shelby State Community College
For the Year Ended June 30, 2000**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Shelby State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Shelby State Community College was founded in 1970 and held its first classes in the fall of 1972. This multi-campus institution is designed specifically to serve a wide variety of higher educational needs for residents in the Memphis-Shelby County area.

ORGANIZATION

The governance of Shelby State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1999, through June 30, 2000, and was conducted in accordance with government auditing standards generally accepted in the United

States of America. Financial statements are presented for the year ended June 30, 2000, and for comparative purposes, the year ended June 30, 1999. Shelby State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on September 14, 2000. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the college has corrected previous audit findings concerning performance of bank reconciliations, reporting of property losses to the Comptroller of the Treasury, and performance of equipment reconciliations.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning the accurate preparation of financial reports. This finding has not been resolved and is repeated in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the year ended June 30, 2000, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by government auditing standards generally accepted in the United States of America. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the college's financial statements.



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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

February 14, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Shelby State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 2000, and have issued our report thereon dated February 14, 2001. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance, which we have reported to the college's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing

The Honorable John G. Morgan
February 14, 2001
Page Two

our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the college's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- Financial reports were not accurately prepared.
- Internal controls over restricted accounts were weak.

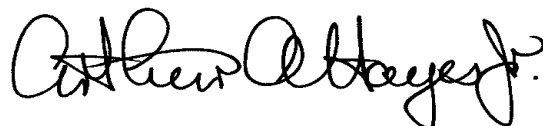
These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/snb

FINDINGS AND RECOMMENDATIONS

1. Financial reports were not accurately prepared

Finding

As noted in the previous audit, the Shelby State Community College unaudited financial report for the year ended June 30, 2000, which was submitted to the Tennessee Board of Regents (TBR), was not accurately prepared. The report contained amounts that did not agree with the general ledger or supporting documentation, amounts on supporting schedules that did not always agree with amounts reported in the financial statements or on other supporting schedules, and inaccurate note disclosures. In addition, some information was not reported in compliance with industry standards or TBR guidelines.

Reported amounts did not always agree with the general ledger or supporting documentation. Some of these differences were the result of recording errors. Management was aware of some of the differences and attempted to make corrections. However, the proposed journal entries were incorrect. The Financial Reporting System's edits recognized the entries as incorrect and did not allow the corrections to be made. Management discussed this issue with one of their information systems employees, but she was unable to help since the problem was an accounting error and not a system error. Due to time constraints to get the report to the Tennessee Board of Regents central office, no further action was taken at that time. The allowance for doubtful accounts receivable as recorded on the general ledger exceeded the allowance calculation worksheet by \$192,688.90. The allowance calculation worksheet is prepared by institution employees and is based on an aging report from the Student Information System. In addition, an account with a balance of \$328,000 that should have been included in the allowance calculation was omitted from the allowance calculation worksheet. Thus, the allowance account was understated by \$135,311.10.

Amounts included on supporting schedules did not always agree with the amounts reported in the financial statements or on other supporting schedules. The following differences were noted: capital outlays on the Schedule of Current Funds Expenditures and Transfers by Object did not agree with the current fund additions to investment in plant, renewals and replacements expenditures recorded to capital object codes were not added to investment in plant, and some unexpended plant expenditures recorded to noncapital object codes were capitalized to investment in plant. Library holdings recorded on the general ledger and reported in the financial statements did not agree with the supporting worksheet.

Note disclosures were not always accurate. Information included in the notes format that was not applicable to the institution was included. Some disclosed amounts were improperly rounded, and other amounts did not agree with supporting documentation. The amount disclosed for the allowance for doubtful accounts receivable did not agree with the general ledger or the supporting documentation. A refund cash reserve was disclosed in the notes; however, the reserve does not exist. The terms of an interfund borrowing between the unrestricted fund and

the restricted fund, the reclassification of a prior-year fund balance, and a pledged amount were not disclosed.

Some information was not reported in compliance with industry standards or TBR guidelines. The restricted revenue portion of the Statement of Current Funds Revenues, Expenditures, and Other Changes was not properly prepared. The report was prepared using the cash receipts amounts rather than reporting the amount spent for current operating purposes. The amount reported for federal grants and contracts was “plugged” in order to agree revenues and expenditures. In addition, grants and contracts were not properly classified according to the fundor level. According to the AICPA college and university audit guide, “the fundor level is the level of the agent that makes the decision that the moneys will be appropriated to the particular purpose for which they ultimately are expended.” Five grants and contracts were noted as improperly classified. The restricted student activity fees were recorded as private gifts, grants, and contracts. However, TBR instructions indicate that “restricted student activity fees should be reported as Tuition and Fees.”

Management is responsible for preparing accurate financial statements and for ensuring that the general ledger supports the financial statements. The TBR provides detailed instructions for the preparation of the financial report. However, college personnel did not follow the instructions or perform comparisons between related schedules. Several of the noted errors could have been detected and corrected if the TBR instructions had been properly followed and if comparisons had been made between related supporting schedules and the financial statements. The financial statements in this report reflect audit adjustments that were necessary for fair statement.

Recommendation

In light of the history of financial reporting deficiencies at the college, management should evaluate the level of understanding and attention to detail of the staff responsible for preparing and maintaining the institution’s financial records. Upper management should ensure that the financial report is accurately prepared. The general ledger should support the financial statements and agree with supporting documentation; the standard note disclosure format should be reviewed, and only information that relates to the institution should be included; and related statements, schedules, and notes should be compared to detect obvious errors. When the system does not record transactions as expected, management and staff should immediately follow through to determine why the system would not record the transactions and ensure that the transactions get recorded. In addition, information should be presented in compliance with industry standards and TBR guidelines.

Management’s Comment

We concur. All of the discrepancies between the general ledger, financial statements, notes and supporting schedules are directly attributable to not performing the necessary checks

and balances during the time between year-end and when the financial statements are required to be presented to TBR. The financial statements were not finalized until the day before they were due to TBR. For the year ending June 30, 2001, management is requiring the accounting staff to have all documents that are to be presented to TBR ready for management review no later than ten days before the due date.

This will ensure that the statements being forwarded will be in compliance and will agree to the general ledger, supporting schedules and notes.

All accounting errors (year end journal entries, calculations) will be eliminated by exercising the highest level of care and judgment in performing these transactions. Also, assistance will be provided from the accounting staff at the Macon Cove campus of Southwest Tennessee Community College where needed.

2. Internal controls related to restricted fund accounts were weak

Finding

As noted in the previous finding, staff was ineffective in administering internal controls over restricted fund accounts in many instances. Because of these weaknesses, restricted fund activity was not properly recorded, activity related to the U.S. Department of Education programs was not properly reported to or reconciled with the Grants Administration and Payment System (GAPS), and adequate collection efforts were not made to collect prior-year receivable balances.

Restricted fund activity was not properly recorded. A detailed review of several restricted accounts revealed the following recording errors: prior-year administrative cost allowances were inappropriately reversed; current-year administrative cost allowances were partially recorded twice; receipts were improperly recorded as revenue and reductions of expenditures; revenue was recorded to the wrong account; revenue was not recorded to equal expenditures; and a donation was recorded in a federal account. These errors resulted in a \$534,599.25 overstatement of the restricted fund balance. In addition, a local grant was incorrectly recorded in the unrestricted current fund rather than the restricted current fund.

Activity related to the U.S. Department of Education programs was not properly reported to or reconciled with GAPS. Drawdowns reported on GAPS for several programs did not agree with the receipts or expenditures recorded on the general ledger. Drawdowns, as recorded in the general ledger, exceeded expenditures by \$36,682.97 for two programs, but the institution did not appear to have excess cash as a whole. In several instances, transactions appeared to be recorded to the wrong account on the general ledger.

Adequate collection efforts were not made by the grant accountant to collect prior-year receivable balances. The receivable balances for 27 accounts did not change from June 30, 1999, to June 30, 2000. Two of the accounts were U.S. Department of Education receivables that did not change due to the recording errors previously mentioned. No collection efforts appeared to

be made on the remaining 25 accounts totaling \$203,135.98. A review of other accounts that had current-year activity disclosed some previous balances for which collection efforts have not been made. Uncollected prior-year receivables totaling \$91,235.36 were noted.

Management is responsible for properly recording activity and for collecting past-due accounts. The financial statements in this report reflect audit adjustments that were necessary for fair statement.

Recommendation

Upper management should ensure that restricted activity is properly recorded. Periodic reconciliations should be performed between the general ledger and GAPS. Differences should be investigated and resolved in a timely manner. Management should ensure that funds restricted by outside parties are correctly recorded as restricted on the general ledger and reported as restricted on the financial statements. Collection efforts should be made and adequately documented for all accounts. The failure to properly record, reconcile, and collect restricted revenues should result in appropriate administrative action.

Management's Comment

We concur. As stated in finding #1, management is requiring the same set of standards for timeliness and accuracy for financial statement presentation and journal entries.

The GAPS reports are currently being reconciled with drawdowns on a monthly basis. All old receivables are either being collected or will be adjusted before the close of the fiscal year ending June 30, 2001.



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Independent Auditor's Report

February 14, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of Shelby State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2000, and June 30, 1999, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

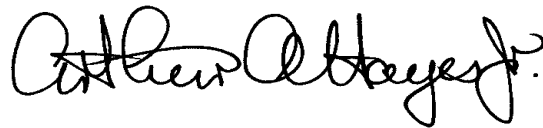
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Shelby State Community College, as of June 30, 2000, and June 30, 1999, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan
February 14, 2001
Page Two

As discussed in Note 11, the college changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2001, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/snb

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 2000, AND JUNE 30, 1999

<u>ASSETS</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash (Notes 2 and 3)	\$ 794,592.11	\$ 796,431.93	Liabilities:		
Accounts receivable (net of allowance of \$443,354.05 at June 30, 2000, and \$433,105.64 at June 30, 1999)	425,410.45	381,693.63	Accounts payable	\$ 638,162.96	\$ 262,502.60
Inventories	25,409.37	28,265.81	Accrued liabilities	175,588.54	239,030.29
Prepaid expenses and deferred charges	10,725.41	9,016.10	Deferred revenue	938,977.00	943,212.75
Due from restricted current funds	<u>2,750,000.00</u>	<u>2,750,000.00</u>	Compensated absences	<u>666,769.64</u>	<u>609,379.48</u>
			Total liabilities	<u>2,419,498.14</u>	<u>2,054,125.12</u>
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	460,050.93	516,503.44
			Allocation for encumbrances	846,764.18	355,688.04
			Allocation for designated appropriations	34,109.10	30,512.19
			Allocation for technology access fees	182,443.04	199,437.56
			Discretionary allocations:		
			Allocation for athletics	-	2,668.80
			Allocation for compensated absences	(666,769.64)	(609,379.48)
			Unallocated	<u>730,041.59</u>	<u>1,415,851.80</u>
			Total fund balances	<u>1,586,639.20</u>	<u>1,911,282.35</u>
Total general	<u>4,006,137.34</u>	<u>3,965,407.47</u>	Total general	<u>4,006,137.34</u>	<u>3,965,407.47</u>
Auxiliary enterprises:			Auxiliary enterprises:		
Cash (Notes 2 and 3)	<u>184,300.78</u>	<u>91,805.44</u>	Liabilities:		
			Accounts payable	<u>-</u>	<u>55.00</u>
			Fund balances:		
			Discretionary allocation:		
			Allocation for contingencies	-	6,435.99
			Unallocated	<u>184,300.78</u>	<u>85,314.45</u>
			Total fund balances	<u>184,300.78</u>	<u>91,750.44</u>

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 2000, AND JUNE 30, 1999

<u>ASSETS</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Total auxiliary enterprises	184,300.78	91,805.44	Total auxiliary enterprises	184,300.78	91,805.44
Total unrestricted	4,190,438.12	4,057,212.91	Total unrestricted	4,190,438.12	4,057,212.91
Restricted:			Restricted:		
Cash (Notes 2 and 3)	721,410.59	387,397.85	Liabilities:		
Grants receivable	2,415,913.16	2,677,681.50	Accounts payable	80,865.86	24,436.41
			Accrued liabilities	7,344.85	23,405.66
			Deferred revenue	9,525.00	-
			Due to grantors	131,593.58	-
			Compensated absences	41,282.93	39,634.01
			Due to unrestricted current funds	2,750,000.00	2,750,000.00
			Total liabilities	3,020,612.22	2,837,476.08
			Fund balances:		
			Discretionary allocation:		
			Allocation for compensated absences	(41,282.93)	(39,634.01)
			Unallocated	157,994.46	267,237.28
			Total fund balances	116,711.53	227,603.27
Total restricted	3,137,323.75	3,065,079.35	Total restricted	3,137,323.75	3,065,079.35
Total current funds	\$ 7,327,761.87	\$ 7,122,292.26	Total current funds	\$ 7,327,761.87	\$ 7,122,292.26
Loan funds:			Loan funds:		
Cash (Notes 2 and 3)	\$ 29,803.82	\$ 35,819.93	Liabilities:		
Notes receivable (net of allowance of \$229,814.79 at June 30, 2000, and \$233,794.15 at June 30, 1999)	1,007.17	1,298.50	Accounts payable	\$ 23,459.80	\$ 18,075.73
Accrued interest receivable (net of allowance of \$179,785.26 at June 30, 2000, and \$176,008.46 at June 30, 1999)	382.97	51.57	Fund balances:		
			U.S. government grants refundable	-	9,005.53
			University funds:		
			Restricted - other	7,734.16	10,088.74
			Total fund balances	7,734.16	19,094.27
Total loan funds	\$ 31,193.96	\$ 37,170.00	Total loan funds	\$ 31,193.96	\$ 37,170.00

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 2000, AND JUNE 30, 1999

<u>ASSETS</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Endowment and similar funds:			Endowment and similar funds:		
Cash (Notes 2 and 3)	\$ 38,569.19	\$ 36,468.20	Fund balances:		
Investments (Note 4)	<u>19,141.12</u>	<u>17,174.34</u>	Endowment	\$ <u>57,710.31</u>	\$ <u>53,642.54</u>
Total endowment and similar funds	<u>\$ 57,710.31</u>	<u>\$ 53,642.54</u>	Total endowment and similar funds	<u>\$ 57,710.31</u>	<u>\$ 53,642.54</u>
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash (Notes 2 and 3)	\$ 1,830,759.08	\$ 1,973,757.25	Fund balance:		
Investments (Note 4)	250,000.00	250,000.00	Unrestricted (Note 5)	\$ <u>2,084,516.54</u>	\$ <u>2,225,493.04</u>
Accrued interest receivable	<u>3,757.46</u>	<u>1,735.79</u>			
Total unexpended plant	<u>2,084,516.54</u>	<u>2,225,493.04</u>	Total unexpended plant	<u>2,084,516.54</u>	<u>2,225,493.04</u>
Renewals and replacements:			Renewals and replacements:		
Cash (Notes 2 and 3)	3,033,614.15	2,066,920.82	Fund balance:		
Investments (Note 4)	650,000.00	650,000.00	Unrestricted (Note 5)	<u>3,706,850.02</u>	<u>2,726,689.97</u>
Accrued interest receivable	<u>23,235.87</u>	<u>9,769.15</u>			
Total renewals and replacements	<u>3,706,850.02</u>	<u>2,726,689.97</u>	Total renewals and replacements	<u>3,706,850.02</u>	<u>2,726,689.97</u>
Investment in plant:			Investment in plant:		
Land	1,703,702.31	1,703,702.31	Fund balance:		
Buildings	26,283,572.45	26,283,572.45	Net investment in plant	<u>33,986,417.02</u>	<u>36,526,604.04</u>
Improvements other than buildings	1,800,985.60	1,800,985.60			
Equipment	1,163,355.66	3,884,424.25			
Library books	2,391,792.00	2,278,224.00			
Other library holdings	<u>643,009.00</u>	<u>575,695.43</u>			
Total investment in plant	<u>33,986,417.02</u>	<u>36,526,604.04</u>	Total investment in plant	<u>33,986,417.02</u>	<u>36,526,604.04</u>
Total plant funds	<u>\$ 39,777,783.58</u>	<u>\$ 41,478,787.05</u>	Total plant funds	<u>\$ 39,777,783.58</u>	<u>\$ 41,478,787.05</u>
Agency funds:			Agency funds:		
Nonfoundation funds:			Nonfoundation funds:		
Cash (Notes 2 and 3)	\$ 35,031.56	\$ 31,037.35	Liabilities:		
Accounts receivable	<u>468.97</u>	<u>468.97</u>	Accounts payable	\$ 687.16	\$ 270.36
			Deposits held in custody for others	<u>34,813.37</u>	<u>31,235.96</u>
Total nonfoundation funds	<u>35,500.53</u>	<u>31,506.32</u>	Total nonfoundation funds	<u>35,500.53</u>	<u>31,506.32</u>

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 2000, AND JUNE 30, 1999

	June 30, 2000	June 30, 1999		June 30, 2000	June 30, 1999
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Foundation funds:			Foundation funds:		
Cash (Notes 2 and 3)	110,516.77	84,255.38	Liabilities:		
Investments (Note 4)	16,720.98	18,436.51	Accounts payable	-	410.88
Accounts receivable	6,856.50	4,396.31	Deposits held in custody for others	134,094.25	115,519.60
Notes receivable	-	8,745.41			
Accrued interest receivable	-	96.87			
Total foundation funds	134,094.25	115,930.48	Total foundation funds	134,094.25	115,930.48
Total agency funds	\$ 169,594.78	\$ 147,436.80	Total agency funds	\$ 169,594.78	\$ 147,436.80

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds					Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant	
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 21,310,991.99	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Auxiliary enterprise revenues	189,796.11	-	-	-	-	-	-	
State appropriations	-	84,950.00	-	-	367,888.10	-	-	
Federal grants and contracts	-	5,525,870.67	-	-	-	-	-	
State grants and contracts	-	307,194.13	-	-	-	-	-	
Local grants and contracts	-	36,009.98	-	-	-	-	-	
Private gifts, grants, and contracts	-	79,347.36	-	20.00	2,756.97	-	-	
Investment income	-	10,105.32	-	4,047.77	53,895.89	168,478.90	-	
Interest on loans receivable	-	-	8,818.68	-	-	-	-	
Expended for plant facilities (including \$261,850.30 charged to current fund expenditures)	-	-	-	-	-	-	279,523.30	
Library holding revaluation	-	-	-	-	-	-	61,554.96	
Total revenues and other additions	21,500,788.10	6,043,477.46	8,818.68	4,067.77	424,540.96	168,478.90	341,078.26	
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	20,203,612.13	6,086,644.58	-	-	-	-	-	
Auxiliary enterprise expenditures	62,755.77	-	-	-	-	-	-	
Indirect costs recovered	-	67,724.62	-	-	-	-	-	
Refunded to grantor	-	-	17,285.00	-	-	-	-	
Loan cancellations and write-offs	-	-	9.20	-	-	-	-	
Provision for doubtful accounts	-	-	2,884.59	-	-	-	-	
Expended for plant facilities	-	-	-	-	17,673.00	-	-	
Expended for noncapital items	-	-	-	-	547,844.46	654,831.86	-	
Disposal of plant facilities	-	-	-	-	-	-	333,263.25	
Total expenditures and other deductions	20,266,367.90	6,154,369.20	20,178.79	-	565,517.46	654,831.86	333,263.25	
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Nonmandatory: Renewals and replacements	(1,466,513.01)	-	-	-	-	1,466,513.01	-	
Total transfers	(1,466,513.01)	-	-	-	-	1,466,513.01	-	
Net increase (decrease) for the year	(232,092.81)	(110,891.74)	(11,360.11)	4,067.77	(140,976.50)	980,160.05	7,815.01	
Fund balances at beginning of year	2,003,032.79	227,603.27	19,094.27	53,642.54	2,225,493.04	2,726,689.97	36,526,604.04	
Cumulative effect of change in accounting principle (Note 11)	-	-	-	-	-	-	(2,548,002.03)	
Fund balances at beginning of year as restated	2,003,032.79	227,603.27	19,094.27	53,642.54	2,225,493.04	2,726,689.97	33,978,602.01	
Fund balances at end of year	\$ 1,770,939.98	\$ 116,711.53	\$ 7,734.16	\$ 57,710.31	\$ 2,084,516.54	\$ 3,706,850.02	\$ 33,986,417.02	

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1999

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	\$ 21,014,473.70	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	128,719.86	-	-	-	-	-	-
State appropriations	-	84,625.00	-	-	927,146.40	-	-
Federal grants and contracts	-	5,216,676.38	-	-	-	-	-
State grants and contracts	-	180,450.75	-	-	-	-	-
Local grants and contracts	-	11,735.72	-	-	-	-	-
Private gifts, grants, and contracts	-	140,929.26	-	1,860.00	-	-	-
Investment income	-	4,674.63	-	1,786.07	49,366.30	131,588.66	-
Interest on loans receivable	-	-	8,818.68	-	-	-	-
Expended for plant facilities (including \$565,055.08 charged to current fund expenditures)	-	-	-	-	-	-	1,207,238.92
Other	-	-	-	1,915.09	-	-	8,773.41
Total revenues and other additions	21,143,193.56	5,639,091.74	8,818.68	5,561.16	976,512.70	131,588.66	1,216,012.33
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	18,988,845.63	5,446,072.31	-	-	-	-	-
Auxiliary enterprise expenditures	34,700.89	-	-	-	-	-	-
Indirect costs recovered	-	80,298.16	-	-	-	-	-
Administrative and collection costs	-	-	145.08	-	-	-	-
Provision for doubtful accounts	-	-	7,655.32	-	-	-	-
Expended for plant facilities	-	-	-	-	624,680.86	17,502.98	-
Expended for noncapital items	-	-	-	-	301,354.21	31,922.00	-
Disposal of plant facilities	-	-	-	-	-	-	794,246.80
Library holding revaluation	-	-	-	-	-	-	61,222.07
Other	-	-	-	-	7,436.83	-	-
Total expenditures and other deductions	19,023,546.52	5,526,370.47	7,800.40	-	933,471.90	49,424.98	855,468.87
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)							
Nonmandatory:							
Loan funds	-	-	1,700.00	(1,700.00)	-	-	-
Unexpended plant	(1,163,170.50)	-	-	-	1,163,170.50	-	-
Renewals and replacements	(6,435.99)	-	-	-	-	6,435.99	-
Total transfers	(1,169,606.49)	-	1,700.00	(1,700.00)	1,163,170.50	6,435.99	-
Net increases for the year	950,040.55	112,721.27	2,718.28	3,861.16	1,206,211.30	88,599.67	360,543.46
Fund balances at beginning of year	1,052,992.24	114,882.00	16,375.99	49,781.38	1,019,281.74	2,638,090.30	36,166,060.58
Fund balances at end of year	\$ 2,003,032.79	\$ 227,603.27	\$ 19,094.27	\$ 53,642.54	\$ 2,225,493.04	\$ 2,726,689.97	\$ 36,526,604.04

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2000

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	\$ 5,298,944.13	\$ 35,000.25	\$ 5,333,944.38
State appropriations	15,175,600.00	119,124.35	15,294,724.35
Federal grants and contracts	78,796.62	5,520,524.96	5,599,321.58
State grants and contracts	-	307,329.04	307,329.04
Local grants and contracts	-	36,009.98	36,009.98
Private gifts, grants, and contracts	3,549.51	68,656.00	72,205.51
Sales and services of educational activities	329,622.28	-	329,622.28
Sales and services of auxiliary enterprises	189,796.11	-	189,796.11
Interest income	188,737.93	-	188,737.93
Other sources	235,741.52	-	235,741.52
Total current revenues	21,500,788.10	6,086,644.58	27,587,432.68
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	8,800,088.15	826,430.72	9,626,518.87
Public service	43,753.02	451,429.73	495,182.75
Academic support	1,299,113.32	82,134.47	1,381,247.79
Student services	2,956,655.08	380,156.70	3,336,811.78
Institutional support	3,453,238.79	14,387.63	3,467,626.42
Operation and maintenance of plant	3,371,074.33	-	3,371,074.33
Scholarships and fellowships	279,689.44	4,332,105.33	4,611,794.77
Total educational and general expenditures	20,203,612.13	6,086,644.58	26,290,256.71
Nonmandatory transfer:			
Renewals and replacements	1,457,023.01	-	1,457,023.01
Total educational and general expenditures and transfers	21,660,635.14	6,086,644.58	27,747,279.72
Auxiliary enterprises:			
Expenditures			
Nonmandatory transfer:	62,755.77	-	62,755.77
Renewals and replacements	9,490.00	-	9,490.00
Total auxiliary enterprises	72,245.77	-	72,245.77
Total expenditures and transfers	21,732,880.91	6,086,644.58	27,819,525.49
OTHER TRANSFERS AND ADDITIONS			
(DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	(43,167.12)	(43,167.12)
Indirect costs recovered	-	(67,724.62)	(67,724.62)
Net decreases in fund balances	\$ (232,092.81)	\$ (110,891.74)	\$ (342,984.55)

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1999

	Unrestricted	Restricted	Total
<u>REVENUES</u>			
Tuition and fees	\$ 4,907,456.17	\$ 38,433.30	\$ 4,945,889.47
State appropriations	15,508,500.00	67,453.53	15,575,953.53
Federal grants and contracts	85,317.04	4,986,277.97	5,071,595.01
State grants and contracts	25,807.00	288,778.27	314,585.27
Local grants and contracts	-	34,199.51	34,199.51
Private gifts, grants, and contracts	-	30,929.73	30,929.73
Sales and services of educational activities	253,585.52	-	253,585.52
Sales and services of auxiliary enterprises	128,719.86	-	128,719.86
Interest income	79,254.98	-	79,254.98
Other sources	154,552.99	-	154,552.99
Total current revenues	<u>21,143,193.56</u>	<u>5,446,072.31</u>	<u>26,589,265.87</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	8,063,634.11	952,459.54	9,016,093.65
Public service	128,223.47	396,732.89	524,956.36
Academic support	1,576,391.07	83,242.12	1,659,633.19
Student services	2,779,343.76	380,986.18	3,160,329.94
Institutional support	3,580,959.91	15,488.10	3,596,448.01
Operation and maintenance of plant	2,534,123.27	-	2,534,123.27
Scholarships and fellowships	326,170.04	3,617,163.48	3,943,333.52
Total educational and general expenditures	18,988,845.63	5,446,072.31	24,434,917.94
Nonmandatory transfers:			
Unexpended plant	1,163,170.50	-	1,163,170.50
Total educational and general expenditures and transfers	<u>20,152,016.13</u>	<u>5,446,072.31</u>	<u>25,598,088.44</u>
Auxiliary enterprises:			
Expenditures	34,700.89	-	34,700.89
Nonmandatory transfers:			
Renewals and replacements	6,435.99	-	6,435.99
Total auxiliary enterprises	<u>41,136.88</u>	<u>-</u>	<u>41,136.88</u>
Total expenditures and transfers	<u>20,193,153.01</u>	<u>5,446,072.31</u>	<u>25,639,225.32</u>
<u>OTHER TRANSFERS AND ADDITIONS</u>			
<u>(DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	193,019.43	193,019.43
Indirect costs recovered	-	(80,298.16)	(80,298.16)
Net increases in fund balances	<u>\$ 950,040.55</u>	<u>\$ 112,721.27</u>	<u>\$ 1,062,761.82</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Shelby State Community College
Notes to the Financial Statements
June 30, 2000, and June 30, 1999**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The university uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund

**Tennessee Board of Regents
Shelby State Community College
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999**

accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include bookstore and food service operations. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

**Tennessee Board of Regents
Shelby State Community College
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999**

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; and (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

Inventories

Inventories are valued at the lower of cost or market. All items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted and restricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and

**Tennessee Board of Regents
Shelby State Community College
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999**

amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values, which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

Shelby State Community College Foundation

The college is the sole beneficiary of the Shelby State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2000, cash consisted of \$400,542.75 in bank accounts, \$493.20 of petty cash on hand, and \$6,377,562.10 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1999, cash consisted of \$297,109.85 in bank accounts, \$560.95 of petty cash on hand, and \$5,206,223.35 in the State of Tennessee Local Government Investment Pool.

NOTE 3. DEPOSITS

The bank balances of certain deposits including accrued interest as of the balance sheet dates were entirely insured or collateralized with securities held by the college's agent in the college's name.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 100% of the uninsured deposits at financial

**Tennessee Board of Regents
Shelby State Community College
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999**

institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions.

The college's remaining deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 4. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Shelby State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The college's investments at June 30, 2000, and June 30, 1999, consisted of certificates of deposit with original maturities greater than three months and an

**Tennessee Board of Regents
Shelby State Community College
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999**

insurance policy. The foundation's investments at June 30, 2000, and June 30, 1999, consisted of mutual funds.

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 2000, amounted to \$8,299.95 for unexpended plant. Plant fund encumbrances outstanding at June 30, 1999, amounted to \$89,071.40 for unexpended plant and \$495,341.00 for renewals and replacements.

NOTE 6. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2000, 1999, and 1998, were \$442,419.90, \$449,873.38, and \$490,618.64. Contributions met the requirements for each year.

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B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$248,626.19 for the year ended June 30, 2000, and \$253,872.02 for the year ended June 30, 1999. Contributions met the requirements for each year.

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 8. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to

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damage from tornadoes. Final settlement has not been made, but the state is expected to receive approximately \$6 million. Of this amount, \$2.5 million has been received to date. No additional claims have been filed with the commercial insurer during the year ended June 30, 2000. In the prior two fiscal years, the state had not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$7.256 million at June 30, 2000, and \$8.219 million at June 30, 1999, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2000, the scheduled coverage for the college was \$43,490,400 for buildings and \$7,615,000 for contents. At June 30, 1999, the scheduled coverage was \$44,038,400 for buildings and \$7,615,000 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

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NOTE 9. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$4,350,594.27 at June 30, 2000, and \$4,232,622.32 at June 30, 1999.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$538,603.20 and for personal property were \$12,462.11 for the year ended June 30, 2000. The amounts for the year ended June 30, 1999, were \$233,713.58 and \$68,423.45. All operating leases are cancelable at the lessee's option.

Litigation - The college is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 10. PLEDGES

At June 30, 2000, unrecorded pledges totaled \$75,000 and were to be used for the advancement of the college at the discretion of the President. These pledges are due to be collected over the next three fiscal years in the amounts of \$25,000, \$25,000, and \$25,000. It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.

NOTE 11. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2000, the threshold for capitalizing equipment increased from \$1,000 to \$5,000. As a result of the change, equipment decreased by \$2,548,002.03.

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NOTE 12. PRIOR-YEAR RESTATEMENT

Several adjustments that were not made during the fiscal year ended June 30, 1998, were discovered during the current audit. As a result, the beginning fund balance for unrestricted current funds on Exhibit C was decreased by \$540,963.01. Due to this discovery, instruction on Exhibit E was decreased \$367,737.45, and on Exhibit C accrued liabilities were decreased \$908,700.46.

During the year ended June 30, 2000, allocations for unexpended technology access fees were classified as non-discretionary rather than discretionary. As a result, the unrestricted current fund non-discretionary allocation for technology access fees on Exhibit A was increased \$199,437.56 at June 30, 1999. The unrestricted current fund discretionary allocation for technology fees on Exhibit A was decreased \$199,437.56 at June 30, 1999.

NOTE 13. SUBSEQUENT EVENT

During the 1999 session, the 101st General Assembly amended *Tennessee Code Annotated*, Title 49, Chapter 8, to create a new community college subsequently named Southwest Tennessee Community College. The legislation abolishes Shelby State Community College and State Technical Institute of Memphis as of July 1, 2000, and transfers their campuses, property, programs, assets, rights, duties, obligations, and debts to the new institution.